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SUBJECT: MINISTRY OF OIL OFFICIAL -- LACK OF SECURITY IS CAUSE OF LOWER EXPORTS AND LACK OF INVESTMENT

Classified By: Economic Minister Counselor Tom Delare for reasons 1.4 (b) and (d)

¶11. (C) SUMMARY: Dr Radwan Al-Sa'adi (Please protect), a Director General at the Ministry of Oil, confirmed that lack of security reduced both oil exports and investment. Lack of constitutional clarity also inhibited upstream investment. Nevertheless, he said Iraq has 12 draft contracts with foreign oil companies for future upstream oil development. Radwan was optimistic of the future capacity of refineries in Iraq to meet domestic requirements, said all imports of foreign petroleum products should be replaced with private sector imports immediately. He stated that the de-Baathification program was "out of control," destroying the capacity of the MOO to function. END SUMMARY

SECURITY PROBLEMS REDUCE NORTHERN OIL EXPORTS

¶12. (C) Dr Radwan Al-Sa'adi, the Director General for Economics and Finance of the Iraqi Ministry of Oil (MOO) met with Senators Snowe and Wyden March 4. Radwan said the northern oil fields at Kirkuk could immediately expand production to 700,000 barrels per day (bpd), with exports of 400,000 bpd. Security of the northern pipelines and crude oil processing facilities prevent this goal from being achieved. (NOTE: This was true until the new stabilization plant was attacked on February 1, reducing the current processing capacity from 1,000,000 bpd to only 500,000 bpd from the old stabilization plant. END NOTE) Radwan stated this was not a corruption problem, but a security problem. He explained that the constant interruption of crude oil supplies from Kirkuk to Bayji refinery added to the costs of importing fuel, as the shortages in refinery production were replaced with expensive imported fuel. Radwan said that corruption, rampant in refined products, was limited in the upstream oil sector, as stealing crude oil was of limited value. He explained that refined products could be sold on the black markets or exported easily to neighboring countries.

MAINTENANCE AND UPGRADING NEEDED IN SOUTHERN OIL FIELDS

¶13. (C) Radwan stated the wells in the south need to be "worked over", including perforation of the well casings for an increase in oil production. He said there had been many delays in getting the well perforation charges into Iraq. Radwan admitted there were still problems with getting foreign oil service companies to come to Iraq to do the well workovers because of the security problems. The oil fields at Rumaylah need water injection in the north and ability to process wet crude in the south to maintain southern production volumes.

OIL PRODUCTION AND FOREIGN INVESTMENT

¶4. (C) Radwan said the pre-war oil production for Iraq was 3.2 million bpd in 1990, before Gulf War I. In 2000-2001, he said Iraqi oil production was 2.8 million bpd. He told us the northern fields at Kirkuk could presently produce 700,000 bpd, while the south could produce 1.9 million bpd. Radwan said Iraq would reach 3.5 million bpd in 2010 if security was normalized. He asserted that if INOC (Iraq National Oil Company) were revived, it would operate much like the Norwegian model of a national oil company, not like the ARAMCO structure in Saudi Arabia. Radwan said, "INOC would control all the currently producing fields and the partially developed fields in Iraq." He stated constitutional decisions on how regional companies would operate would be required prior to full participation of foreign oil companies in Iraq. He did tell us that there were already 12 draft contracts for upstream development with foreign oil firms at MOO. Radwan was optimistic of the future capacity of refineries in Iraq to meet most domestic requirements. Radwan said he felt that all imports of foreign petroleum products should cease immediately, and be replaced with private sector import companies.

NEXT MOO, AND WHO WILL SURVIVE IN THE MOO

¶5. (C) Radwan said he knew of three primary candidates for the next Minister of Oil: Thamar Ghadbahn--previous MOO, Achmed Chalabi--current Deputy Prime Minister. and Jabbar

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Al-Li-aebi--current South Oil Company Director General. He discounted the possibility of himself being selected as the next MOO, as he was a technocrat and not a politician. He said he did not think that the North Oil Company Director General (DG) Adel Qazaz would continue in office, nor would the South Gas Company DG Thaer Ibrahim, as their performance was not adequate. The DG for SCOP (State Company for Oil Pipelines) would most likely retire due to age, as he is currently 64.

NO TO OIL DIVIDEND TO POPULACE NOW

¶6. Radwan told us that now is not the time to hand the oil revenue out to the population of Iraq. He said oil revenues should go to investment in the health care, education, electricity, and other basic services first. The examples of the Alaska Fund and the Alberta Funds would perhaps be applicable in the future.

DEBAATHIFICATION

¶7. (C) "The de-Baathification process is out of control and has been used to get rid of quality people. We have lost many of our best people at the Ministry of Oil", said Radwan.

(NOTE: Radwan is the last senior Sunni left in the Ministry of Oil, and has told us in the past that he is concerned for his continued employment at MOO. END NOTE).

¶8. (U) Senators Snowe and Wyden were unable to clear this cable before their departure.

KHALILZAD